Newspaper: Providence Journal
January 25, 2008
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State pension costs studied

House Speaker William J. Murphy is creating a commission to examine Rhode Island's expensive pension system.

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PROVIDENCE — Despite recent "reforms" aimed at reining in the state's pension costs, today's state workers can still look forward to significantly higher pensions than their counterparts in most other New England states, at a steep cost to taxpayers — a potential $1.6 million over the retirement life of a single pensioner, according to a newly released report by the state treasurer's office.

Since the reforms were aimed at new and unvested employees, Rhode Island's public employee pension system would still provide an immediate $37,620-a-year pension — and guarantees of 3-percent compounded, annual cost-of-of-living increases — to the 55-year-old averaging $57,000 in pay at the end of a 30-year state career.

In Connecticut, the pension paid a similarly situated retiree would be $20,734; in Maine, $30,353; in Massachusetts, $25,650; in New Hampshire, $24,273, and Vermont, $24,966, according to the state's actuarial advisers at Gabriel, Roeder, Smith & Company.

Looked at another way, the pension paid that one relatively young retiree over the span of his or her retirement years would cost the Vermont pension system a potential $779,862 — in Rhode Island it would be $1,628,334.

In 2005, lawmakers here adopt-

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ed, for the first time in decades, a minimum retirement age for a full pension along with other changes aimed at cutting the exploding taxpayer cost of the system.

But even with those new age-and-work requirements, the projected lifetime pension payments to an individual retiree are still higher here — at $1.049 million — than they are in any other New England state, and even a new state worker here can look forward to a higher pension — $31,493 at age 60 after 30 years work — than their counterparts everywhere else in the region except Massachusetts ($34,200).

The findings, contained in a report commissioned by General Treasurer Frank Caprio, are likely to provide a starting point for the discussions of a 19-member commission that House Speaker William J. Murphy is assembling.

With little debate last night, the House Finance Committee approved Murphy-sponsored legislation to launch the study of "all aspects" of the state retirement system, including "funding, investments and management, eligibility, age of retirement, benefits, contributions, vesting, disqualification and any other matter that is related to the state pension or retirement system."

Union leaders, who fear the gravity of the state's financial situation may prompt more changes in their members' retirement packages, are bracing for another fight.

In an interview yesterday, Robert Walsh, executive director of the Rhode Island chapter of the National Education Assocation, which represents state workers and public school teachers, said: "I am looking forward to participating in that study. I think it's going to be an opportunity to slice some myths people have. People have this belief that this is a great benefit without a cost to the employees.

"If I could just get the fact out there of what people in other states contribute ... versus what employees in Rhode Island contribute to their own pensions then we can start to get some understanding."

But Walsh rejects the argument advanced by Governor Carcieri that the state needs to bring its employee benefits — including pensions — "back in line" with what private-sector workers get.

On the retirement front, Walsh said: "All you have to do is look at what happened to the market in the last three weeks to understand why private accounts and 401(k)s don't offer nearly the security of a defined benefit plan," he said. Estimating that one out of five private-sector workers in Rhode Island still has a defined benefit plan — with guaranteed income no matter what happens on the stock market — Walsh said of the other 80 percent with no such guaran-

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tees: "We are never going to compete with folks, with employers who are so ridiculous they do not provide retirement security plans for their employees.

"If they don't, they are terrible people and they shouldn't be allowed to exist and that's always going to be the union position on those issues," he said.

And so the debate begins with organized labor pressing to keep the status quo, Republican Carcieri agitating for cutbacks in employee-benefit costs and lawmakers just beginning to wrestle with the state's projected $151-million operating deficit this year, and next year's (between $384 million and $450 million), amid unabated increases in state pension costs.

Carcieri has already proposed legislation that would require any state worker who waits until after June 30 to retire to pay more out of their own pockets for their post-retirement health coverage.

The money for Rhode Island's pensions comes from three sources: the employees, the state's taxpayers and the stock market. Only one is fixed in law: the 8.75 percent of pay contributed by each employee. So barring a change in law, the only place the state can go when the stock market tumbles is the state taxpayer. This year, the state is contributing 20.77 percent of payroll to the pension fund — an anticipated $135.6 million; and next year, a projected $148.1 million or 21.13 percent. (And that does not include the additional 7.65 percent the state and the workers contribute to Social Security.)

First-term state treasurer Caprio has not yet taken a position on what, if anything, the state should do to lower its annual pension costs or $4.9 billion in unfunded liability for the promises the state made in earlier years to current and future retirees. Instead, he has been ordering up studies.

In a summary of their findings, the actuaries at Gabriel, Roeder, Smith suggested two reasons why benefits here "are perceived as much larger than in other states around Rhode Island." One was the "early age at which unreduced benefits are available," and the other, the benefit formula which, for most current employees, starts at a relatively low 1.7 percent of pay for every year of service and rises to a relatively high 3 percent per year after 20 years.

In one scenario, the actuaries looked at a $57,000-a-year employee retiring at age 65 after only 20 years on the job. In this strata, the Rhode Island pension at $20,520 a year lagged both the Maine benefit ($22,800) and Massachusetts' at $28,500.

But as the actuaries noted: "Of the six states in New England, state employees are covered by Social Security in four ... the exceptions being Maine and Massachusetts. Benefits in states not covered under Social Security are generally larger than in covered states."

The actuaries made many assumptions. But union leaders were less immediately concerned about the accuracy of the assumptions than they were about what went unmentioned.

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Extra: To read the full text of bill H 7141 creating a special House commission to study the state pension or retirement system, go to **projo.com**

Dennis Grilli, executive director of the largest state employee union — Council 94, American Federation of State, County and Municipal Employees — said state workers here contribute more out of their own paychecks than their counterparts in most other states, including Connecticut where employees hired since 1997 pay 2 percent; Maine, 7.65 percent; Vermont, 3.35 percent and Massachusetts, where the employee contribution rate ranges from 5 percent to 9 percent, according to the Rhode Island treasurer's office.

Grilli said the actuaries' report also fails to mention the number of states that exempt state employee pensions from taxation.

Asked what then he might consider a reasonable step in the effort to hold down pension costs, he said: "Personally, I don't see where we can make any other changes right now ... The employees are paying a lot of money to maintain this benefit and they are putting in a lot of years of service, so I don't see any reason for change."

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